Generosity within limits

Make the most of your giving nature with this quick tax refresher

One of the great things about wealth is getting to share it with those you care about, during your lifetime or after. Current tax laws enable you to do just that quite generously. As a quick reminder, here are a few ways you can make the most of your giving nature:

Know your limits

Federal gift taxes can be as high as 40%. To avoid potential taxation, you should pay attention to the annual exclusion and lifetime gift exemption amounts. The 2016 rules allow an individual to give up to $14,000 per year to as many people as he or she likes; legally married couples can gift twice that amount (i.e., gift splitting). Anything over those amounts will start to chip away at your lifetime exclusion limits, although those are quite robust – $5.45 million for individuals and $10.9 million for couples for 2016. Gift splitting and any amounts above the annual exclusion require filing a gift tax return.

Did you know?

Gifts between U.S. citizen spouses are excluded from the annual and lifetime exemptions. With the portability provision, the surviving spouse retains the unused estate tax exclusion of their most recent spouse.

The gift of education

You can pay for a child's or grandchild's tuition tax-free, as long as you do so directly to an educational institution. You may give unlimited amounts directly without incurring gift tax, while also giving money to the student up to the annual gift tax exclusion. Perhaps an even better option is a 529 education savings account, offering numerous benefits, along with a "super fund" feature that really allows you to boost your generosity.

With this feature, you can gift up to $70,000 (per spouse or contributor for 2016) with the understanding that the "super fund" amount covers five years' worth of gifts. If feasible, kick-starting a plan like this allows those funds a chance to significantly compound while invested.

Any gift can be a great gift

You don't have to give cash to take advantage of tax exemptions. Stock and personal property can be gifted as well. Just keep in mind that most gifted property must be appraised for its "fair market value" at the time of transfer and that it, too, is subject to the annual and lifetime exclusion limits.

Have questions on these and other strategies for giving wisely? Your financial and tax advisors can add some strategy around your charitable endeavors, allowing you to share the wealth (tax) freely. When mindfully paying it forward, you not only reap the mental and emotional benefits of helping others, but can also protect your hard-earned money from unnecessary taxation.

"Super" funding a 529 plan

Don't forget – while contributions to 529 accounts are not federally deductible, qualified distributions for education expenses from all plans are exempt from federal income taxes. States are free to offer tax incentives on 529 plan contributions and withdrawals.

Earnings in 529 plans are not subject to federal tax, and in most cases, state tax, so long as you use withdrawals for eligible college expenses, such as tuition and room and board. However, if you withdraw money from a 529 plan and do not use it on an eligible college expense, you generally will be subject to income tax and an additional 10% federal tax penalty on earnings.

Before investing you should consider whether your resident state offers state tax or other benefits only available when investing in your state's 529 plan. Plans offered by other states may not provide these same tax benefits. Changes in tax laws or regulations may occur at any time and could substantially impact your situation. You should discuss any tax or legal matters with the appropriate professional.

Sources: irs.gov, investopedia.com, fool.com

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